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ABSTRACT

Proposed levels of federal aid to college students and the national economic context are considered. Compared to fiscal year 1985 and 1986 budgets, the Reagan administration has requested $2.3 billion less in various financial aid programs. It has proposed legislation limiting federal grants, direct loans, or work study jobs to students from families with adjusted gross incomes of $25,000 or less, while also placing a $4,000 cap on the total aid given to low-income students. Students from families with adjusted gross incomes of over $32,500 would be ineligible for subsidized loans. A major issue in the debate over financial aid is the definition of financially independent students. The debate over the 1986 financial aid budget presents important challenges to higher education, since the federal deficit that will be an increasingly critical issue in the future. It will also be necessary to determine how to reduce the cost of the financial aid program without demaging the system or its goals. Another challenge facing higher education is to disprove the myth that most students receiving financial aid do not need it and that they are exploiting the system. Positions in the debate over financial aid held by private individuals as well as government officials and U.S. congressional members are included. (SW)

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Cut Federal Aid to College Students?

By Professor Ronald Roemer

The fact that education produces benefits for both society and the individual is what distinquishes the economics of higher education from other enterprises. Since both benefit on the return it stands to reason that both should share in the investment.

The creation of the Higher Education Act of 1965 supports this idea for this legislation established educational opportunity as a national goal irrespective of financial circumstances and, in fact, laid a strong student aid framework. By 1981 the economic mix of students was comparable between public and private colleges, including a comparable proportion of minority students.[1] Thus the act's goal was close to fruition.

This realization of balance in education was possible because of the small unmet need that the student was expected to provide, $200 or 3.5% of the total cost for the average student in private college in 1981. But how can this balance be maintained if the gap between student aid and college costs widens to current projections of $1500 or 17% of estimated costs? Although colleges are taking measures to make up this gap it puts increasing strains on already tight budgets.[2]

In addition to present problems resulting from limited college funding are the long-range affects. The percent of students forced to take out loans has already increased from

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12.1 percent in 1975-76 to 42.9 percent today.[3] This increase brings with it serious ramifications. For example, students are expected to carry a heavier financial burden in order to receive a quality education while this burden lightens for communities and government though they benefit from each individual's education. In fact, society could very well be hurting itself since loan repayment may absorb income normally spent on other goods and services. And what of the colleges themselves? Will loan repayment inhibit alumni from making considerable contributions to their schools?

Of course current national economics must be considered when examining the economics of independent higher education. The nature and level of government's role in society is being reviewed in developing policies that will increase tax revenues and decrease federal spending so as to reduce the huge budeget deficits now in existence. With specific regard to higher education, enrollment is obviously affected by changes in student aid policy. Both the individual student and society as a whole suffer since education is directly related to the American standard of living.

In determining how appropriate the Administration's proposals are for federal financial aid in higher education it is important to first understand the rationale of the proposals and then the arguments of opponents of these proposals.

In comparing fiscal year 1986 to fiscal year 1985,

President Reagan has requested $2.3 billion less in various financial aid programs. He has proposed legislation limiting federal grants, direct loans, or work study jobs to students from families with adjusted gross incomes of $25,000 or less, while at the same time placing a $4,000 annual cap on the total amount of aid given to students from low-income families. Moreover, according to Reagan's proposals, irrespective of financial need students whose families have adjusted gross incomes of over $32,500 will now be ineligible for subsidized loans. Rather a more costly revised PLUS Program would be the alternative for these students. The rationale for these figures is based on a $25,000 approximated national median which makes $32,500 30 percent above that median. The $4,000 cap is based on the average educational related cost per year.

A major issue in the debate over financial aid is the definition of financially independent students. With the exception of orphans and wards of the state anyone under 22 years of age would be considered dependent according to proposals of the Reagan administration.

Lawrence E. Gladieux, executive director of the Washington Office of the College Board says:

> This method would be verifiable,... it would reinforce the bedrock of the financial aid system, which is the asumption that parents bear the primary responsibility for financing their child's education.

However, John Joyce, Director of Financial Aid at the State University of New York (at Stony Brook) makes a

good point when he says that:.

> It's a black-and-white standard that's going to leave a lot of people, like those thrown out of the house or those forced to leave for psychological reasons in difficult straits.[5]

In addition there are others in today's society who may become independent at an earlier age. Changes in family structure, for example divorce, can result in financial complications. Who bears the financial responsibilities of the student? And, consider, too, the desired independence of today's youth who frequently venture out on their own before age 22. On the other side of the coin are those students who may remain dependent on their families beyond age 22 due to an extended period in school, whether this be the result of circumstances before college, attending college on a part-time basis or continuing immediately to graduate school.

In an interview with U.S. News & World Report, Edward Elmendorf, Assistant Secretary for Postsecondary Education discussses why the administration favors reducing aid to college students. In discussing why, he states;

> Because the program has run amok. It's costing the taxpayer 8.6 billion dollors this year-or more than twice the 3.7 billion it cost in 1978. The public sees supposedly needy students driving big cars, skyrocketing defaults on student loans, lender banks getting big subsidies. We're not out to kill the program but to trim it before the public loses all confidence in it.[6]

Elmendorf goes on to point out that if a family with an

income above $32,500 needs help they can still borrow up to $4,000 a year per student under the PLUS Program, which, although not subsidized, are guaranteed by the government. Although Elmendorf refutes the idea that such cuts would close college doors to poor and some middle-class gifted students, he does state that students will have to seriously consider which college to attend with the taxpayer's help. He remarks that the federal government cannot send all students to any college they choose, no matter what the cost. He goes on to claim that since the proposed changes are designed to make sure that financial aid is given to those who really need it, minority students are those who will benefit the most. He also refutes the idea that it will result in the well-to-do going to private colleges and the poor to state colleges by pointing that if from 1978-81, when billions of dollars were poured into student aid, there was no change in enrollment patterns then taking money out wouldn't produce a change either.[7]

It is interesting that Mr. Elmendorf makes this tnis last statement because Secretary of Education William J. Bennett stated in an interview with the Chronicle of Higher Education, that there might be a noticeable shift of students from private to public colleges if student aid is reduced as much as President Reagan wishes. Mr. Bennett explains that although the proposals will not force students to leave school, that does not mean that the government is prepared to foot the bill for

claims that at the same time that college costs are increasing, the quality of education is decreasing. Thus, he implies, taxpayers are getting less for their money.[11]

Mr. Bennett goes on to emphasize the abuses in the program which he cites as causes of federal aid cuts . According to Bennett the proposed aid is reduced by $1.5 billion while the amount of student aid in default is $4.5 billion. Interestingly enough, the same figures, according to Department of Education documents, are $1.67 billion and $2.5 billion.[12]

He thus concludes that the public should be mad, but not at him, rather at those 10.9 percent of students who default on their loans. Indeed, he adds, that student defaults are but one of many abuses to the program. He claims he receives many calls and letters complaining about people who use student loans to invest in money markets and so on. Thus, these are the people responsible for hardships in financing education which today's students must face.[13]

On the student level, John P. O'Brien, a first year medical student at the University of Vermont told the Chronicle of Higher Education that Mr. Bennett's remarks really denigrated students. O'Brien said that there are students who have all the things Bennett claims they have, but they're not on financial aid. "I don't have a car, and I don't have a stereo. I don't have any material goods except athletic stuff. I don't even have a clock," he testified at a hearing on the financial aid issue. He continued that by the time he completes his medical

education he will owe the federal government $240,000 for the principle and interest on the federally subsidized loans. Without those loans, he said, he will have to drop out of medical school.[14]

At 30 years old, Mr. O'Brien is financially independent. He's living on an annual budget of $15,000 which includes tuition, food, shelter and other expenses.[15]

> Due to the demands and pressures of being a medical student, Mr. O'Brien said it would be too difficult for him to hold down a paying job this year and do well at his studies. I would prefer to incur more debt than to hamper my learning, he said.[16]

Ms. Davis, a student at Vermont Law School indicated that federal aid is essential to graduate students such as herself. She is one of many adults today who are returning to school. "My future and my children's future depend on student aid", Ms. Davis said.[17]

These concerns are not limited to graduate students. Several undergraduates at Trinity College in Vermont who would not be eligible for GSLs under the new proposals, said they could not continue at their present school as it would be too costly. They're clearly concerned for their futures.[18]

What this means is that lower income families who are now able to send their children to private institutions will no longer have this option under the new proposals. This, then, would limit these students' choices and thus possibly even the quality of their education. And doesn't this mean that a private university education becomes only an elitist choice?

As to the affects of the proposals on college students, information is still being gathered. However, the $32,500 income ceiling on loans would make about 460,000 students ineligible. Analysis has also shown that students with family incomes of more than $30,000 accounted for 41% of undergraduate students at private colleges who received GSLs in 1983-84. Furthermore, 12,000 students who were under 22 and independent would have been denied loans. Obviously, the administration's proposals would also affect graduate students. According to the analysis done by the American Council on Education 10,000 graduate students at public institutions would lose their eligibility.[19]

Although students would be the hardest hit, they would not be the only ones to feel the effects of the proposals and certainly are not alone in opposing them.

John Phillips, President of the National Association of Independent Colleges and Universities said in an interview with U.S. News & World Report that it's taken 30 years to build an aid program which would make education feasible for minorities, women, and the disadvantaged and it would be a betrayal to the public if this does not continue. He goes on to say that working one's way through college has become impossible since it would take a 38-40 hour work week at $5 per hour which would leave little time and energy for study. He continues that while state schools may still be an option for many it is essential that both options be available to all. He points out that the

very administration that wants to get government off the people's back is practically forcing them to settle for a state education leaving the choice to only the wealthy. Phillips also comments on abuses in the system on which he argues it is the responsibility of the Secretary of Education to deal with offenders rather than penalizing the entire public and jeopardizing their faith in the system. He adds that contrary to claims stating otherwise, student loan defaults are actually declining. Finally, he replies to arguments that ask why student loans should be subsidized by the government since home, auto and other loans are not by pointing out that over a 40 year period a college graduate may contribute an extra $86,000 in tax revenue to the federal government which is quite a return on the initial investment.[20]

The Association of Independent Colleges and Universities in N.J. also opposes the administration's proposals. They comment specifically on the role of the student aid program within the framework of the existing tight federal budget in one of their question and answer sheets on student aid. While it is necessary to review all government spending, including student aid, they point out that student aid has already been cut more than any other program and in fact, they explain, just putting a freeze on the program would consequently provide less funding to students as the cost of education continues to rise.[21]

The AICUNJ contends that:

> If student aid programs are to be cut back from existing levels, it matters enormously how these cuts are made. In our view, it is absolutely essential that

> the need to reduce spending not be allowed to dismantle or appreciably alter the basic structure and balance of existing aid programs. These programs provide aid through grants, loans, and jobs with enough discretion, and with enough sensitivity to variations in college costs, to permit students not only access to higher education, but also some degree of choice among institutions. As a result, able students from all income levels can elect the more selective, higher cost institutions as long as they are willing to share in the necessary financial sacrifices. This element of choice, involving the willingness of individuals as well as institutions to invest in education, helps to perpetuate the diversity that is such a distinctive--and envied--characteristic of American higher education.[22]

In commenting on the specific restrictions within the proposals, the AICUNJ feels that ceilings of the kind proposed are simply too arbitrary and would impose severe hardships on many families. They also would fail to accomodate the differential costs of institutions, and would preclude the degree of sensitivoty to individual circumstances that they believe is more, rather than less, urgently needed when resources are scarce. The AICUNJ then goes on to give a list of ways they feel the necessary savings can be made without damaging either the system or the objectives it exists to serve.[23]

Opposition to the proposed cuts exists from within the government itself as well, including various politicians and government committees and bodies.

Senator Robert T. Stafford, Republican of Vermont and chairman of the Senate Subcommittee on Education, Arts and the Humanities, said the administration's proposals were:

> ... absolutely ludicrous and will meet with strong opposition from this Senator, who would suggest that anyone advocating the elimination of a good portion of middle-income families from the Guaranteed Student

loan program does not understand the purpose of the loan program.[24]

He continues that the federal government is only providing limited assistance to middle-income families, not a free education. Students must repay the loan after leaving school. Finally, he comments that without the aid program as it stands, students will be denied the opportunity to attend the college of their choice if not the opportunity to attend college at all.[25]

Representative Jim Florio, a New Jersey Democrat, wrote in one of his newsletters that the effect of the proposals would be drastic since such factors as family illness and other siblings also enrolled in college are not taken into consideration.[26]

These proposals reverse the concept of equal access to education and restrict the right of the individual to pursue an education at the school of his or her choice. To support this contention, Mr. Florio points out that at Bloomfield College, 9% of the students would have to go to public institutions and 11% would have to leave college. Obviously Bloomfield College students would not be alone, Rider College would lose 60% of its' student body in the next three years and at Rutgers, the state university, students would lose 30% of their federal aid.[27]

In the Spring of 1985 the proposed budget went to the Senate Budget Committee for consideration. The committee endorsed a $200 million reduction in special interest incentives to GSL lending institutions. If this is passed in the final budget, the result will most likely be higher interest rates for students in need of these loans. Of those institutions now participating

in the program, a number of them have indicated they may withdraw if these incentives are withdrawn.

The committee did, however, reject three of the major recommendations included in the proposed plan. The $4,000 cap for individual students as well as restrictions on family income for GSLs and other federal loan, grant and student employment programs were all opposed by the committee.

In the House of Representatives, opposition to the proposals is also strong as leaders of the House Education Committee plan to recommend that federal funding for educational programs continue with adjustments for inflation. In fact, there is support in both houses of Congress to continue providing educational opportunity and freedom of choice for all students which would be weakened by the proposed budget cuts.

The finalized federal budget should be passed this month. It appears that the attack on financial aid in the 1986 budget process will be defeated. Nevertheless, higher education faces some serious challenges in the future; a victorious battle does not a war win. The attacks on financial aid over the last year were but a prelude of things to come.

The debate over the 1986 financial aid budget presented some important challenges to higher education which must be met.

First is the issue of federal deficits which will be an increasingly critical matter in the years to come. Society must realize that the maintance of the financial aid system is most essential to the health and welfare of this nation.

A reduction in the cost of the financial aid program may

be unavoidable, therefore creating a second challenge to the education system. It will be necessary to determine a way to reduce the cost of the program without damaging the system or its' goals. Possible means to this end include more intensive efforts to collect from defaulters and stronger measures to verify information given on loan applications. The NAICU, along with other organizations have made many such recommandations already.

The third challange facing higher education in the Post-Industrial Era is to disprove the social myth that most students receiving financial aid really don't need it but are in fact exploiting the system and thus the taxpayer. This is indicated by the fact that 77% of the respondents in a Harris poll in the Spring of 1985 felt that too many well-off families receive loans.[28]

If the educational community fails to meet these challenges the resulting consequences will be very serious for college students, colleges and perhaps most importantly, the nation.

Endnotes

1. National: 3
2. National: 3
3. National: 3
4. Wolfe: 1
5. Wolfe: 1+
6. "Cut": 67
7. "Cut": 67
8. Engelgau: 1+
9. Engelgau: 24
10. Engelgau: 24
11. Engelgau: 24
12. Engelgau: 24
13. Engelgau: 24
14. "Enrollment": 1+
15. "Enrollment": 26
16. "Enrollment": 26
17. "Enrollment": 26
18. "Enrollment": 26
19. "Reagan": 23+
20. "Cut": 67
21. Asscciation: 1
22. Association: 2
23. Association: 2+
24. "Reagan": 25
25. "Reagan": 25
26. Florio: 1
27. Florio: 1
28. Pietrafesa: 4

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